

STATE OF ARIZONA OFFICE OF THE GOVERNOR

EXECUTIVE OFFICE

Douglas A. Ducey Governor

May 7, 2019

The Honorable Katie Hobbs Secretary of State 1700 W. Washington, 7th Floor Phoenix, AZ 85007

Dear Secretary Hobbs:

I am transmitting to you the following bills from the Fifty-fourth Legislature, 1st Regular Session, which I signed on May 7th, 2019:

- H.B. 2059 independent oversight committees; report; website (Barto)
- H.B. 2060 pharmacists; providers; drug therapy; refills (Barto)
- H.B. 2083 kindergarten; survey; report. (Biasiucci)
- H.B. 2113 public restrooms; changing stations (Griffin)
- H.B. 2119 school safety; reporting (Barto)
- H.B. 2589 distinguished flying cross license plates (Kavanagh)
- H.B. 2602 multiple sentences for imprisonment (Finchem)
- S.B. 1007 insurance; corporate governance; disclosure (Livingston)
- S.B. 1018 ASRS; compensation; definition (Livingston)
- S.B. 1029 qualifying physicians; opiate-dependent patients (Carter)
- S.B. 1035 insurance; small employers; continuation coverage (Brophy-McGee)
- S.B. 1039 pain management clinics; regulation (Brophy-McGee)
- S.B. 1094 planned communities; applicability; recreational center (Borrelli)
- S.B. 1186 municipalities; pension fund; transfer (Pratt)
- S.B. 1304 mechanics liens; notice; applicability (Livingston)

Sincerely,

Douglas A. Ducey

Governor

State of Arizona

cc: Senate Secretary

Chief Clerk of the House of Representatives

Arizona News Service

FILED KATIE HOBBS SECRETARY OF STATE

State of Arizona Senate Fifty-fourth Legislature First Regular Session 2019

CHAPTER 180 SENATE BILL 1007

AN ACT

AMENDING TITLE 20, CHAPTER 2, ARIZONA REVISED STATUTES, BY ADDING ARTICLE 16; RELATING TO THE TRANSACTION OF INSURANCE BUSINESS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Be it enacted by the Legislature of the State of Arizona:

Section 1. Title 20, chapter 2, Arizona Revised Statutes, is amended by adding article 16, to read:

ARTICLE 16. CORPORATE GOVERNANCE

20-492. Definitions

IN THIS ARTICLE. UNLESS THE CONTEXT OTHERWISE REQUIRES:

- 1. "CORPORATE GOVERNANCE ANNUAL DISCLOSURE" OR "CGAD" MEANS A CONFIDENTIAL REPORT THAT IS FILED BY THE INSURER OR INSURANCE GROUP AND THAT IS MADE IN ACCORDANCE WITH THE REQUIREMENTS OF THIS ARTICLE.
- 2. "INSURANCE GROUP" MEANS THOSE INSURERS AND AFFILIATES INCLUDED WITHIN AN INSURANCE HOLDING COMPANY SYSTEM AS DEFINED IN SECTION 20-481.
 - 3. "INSURER":
 - (a) MEANS A DOMESTIC INSURER AS DEFINED IN SECTION 20-203.
 - (b) DOES NOT INCLUDE:
- (i) AN AGENCY, AUTHORITY OR INSTRUMENTALITY OF THE UNITED STATES AND ITS POSSESSIONS AND TERRITORIES, THE COMMONWEALTH OF PUERTO RICO OR THE DISTRICT OF COLUMBIA.
 - (ii) A STATE.
 - (iii) A POLITICAL SUBDIVISION OF A STATE.
 - 20-492.01. <u>Disclosure requirements</u>
- A. BY JUNE 1 OF EACH CALENDAR YEAR, AN INSURER, OR THE INSURANCE GROUP OF WHICH THE INSURER IS A MEMBER, SHALL SUBMIT TO THE DIRECTOR A CORPORATE GOVERNANCE ANNUAL DISCLOSURE THAT CONTAINS THE INFORMATION DESCRIBED IN SECTION 20-492.03. NOTWITHSTANDING ANY REQUEST FROM THE DIRECTOR MADE PURSUANT TO SUBSECTION C OF THIS SECTION, IF THE INSURER IS A MEMBER OF AN INSURANCE GROUP, THE INSURER SHALL SUBMIT THE REPORT REQUIRED BY THIS SECTION TO THE CHIEF REGULATORY OFFICIAL OF THE LEAD STATE FOR THE INSURANCE GROUP, IN ACCORDANCE WITH THE LAWS OF THE LEAD STATE, AS DETERMINED BY THE PROCEDURES OUTLINED IN THE MOST RECENT FINANCIAL ANALYSIS HANDBOOK THAT IS ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS.
- B. THE CGAD MUST INCLUDE A SIGNATURE OF THE INSURER OR INSURANCE GROUP'S CHIEF EXECUTIVE OFFICER OR CORPORATE SECRETARY ATTESTING TO THE BEST OF THAT INDIVIDUAL'S BELIEF AND KNOWLEDGE THAT THE INSURER HAS IMPLEMENTED THE CORPORATE GOVERNANCE PRACTICES AND THAT A COPY OF THE DISCLOSURE HAS BEEN PROVIDED TO THE INSURER'S BOARD OF DIRECTORS OR THE APPROPRIATE COMMITTEE OF THE BOARD.
- C. AN INSURER THAT IS NOT REQUIRED TO SUBMIT A CGAD UNDER THIS SECTION SHALL DO SO ON THE DIRECTOR'S REQUEST.
- D. FOR THE PURPOSES OF COMPLETING THE CGAD, THE INSURER OR INSURANCE GROUP MAY PROVIDE INFORMATION REGARDING CORPORATE GOVERNANCE AT THE ULTIMATE CONTROLLING PARENT LEVEL, AN INTERMEDIATE HOLDING COMPANY LEVEL OR THE INDIVIDUAL LEGAL ENTITY LEVEL, DEPENDING ON HOW THE INSURER OR INSURANCE GROUP HAS STRUCTURED ITS SYSTEM OF CORPORATE GOVERNANCE. THE INSURER OR INSURANCE GROUP IS ENCOURAGED TO MAKE THE CGAD AT THE LEVEL AT

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WHICH THE INSURER'S OR INSURANCE GROUP'S RISK APPETITE IS DETERMINED, THE LEVEL AT WHICH THE EARNINGS, CAPITAL, LIQUIDITY, OPERATIONS AND REPUTATION OF THE INSURER ARE OVERSEEN COLLECTIVELY AND AT WHICH THE SUPERVISION OF THOSE FACTORS ARE COORDINATED AND EXERCISED OR THE LEVEL AT WHICH LEGAL LIABILITY FOR FAILURE OF GENERAL CORPORATE GOVERNANCE DUTIES WOULD BE PLACED. IF THE INSURER OR INSURANCE GROUP DETERMINES THE LEVEL OF REPORTING BASED ON THESE CRITERIA, IT SHALL INDICATE WHICH OF THE THREE CRITERION WAS USED TO DETERMINE THE LEVEL OF REPORTING AND EXPLAIN ANY SUBSEQUENT CHANGES IN LEVEL OF REPORTING.

- E. THE REVIEW OF THE CGAD AND ANY ADDITIONAL REQUESTS FOR INFORMATION SHALL BE MADE THROUGH THE LEAD STATE AS DETERMINED BY THE PROCEDURES WITHIN THE MOST RECENT FINANCIAL ANALYSIS HANDBOOK THAT IS ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS.
- F. INSURERS THAT PROVIDE INFORMATION THAT IS SUBSTANTIALLY SIMILAR TO THE INFORMATION REQUIRED BY THIS ARTICLE IN OTHER DOCUMENTS THAT ARE PROVIDED TO THE DIRECTOR, INCLUDING PROXY STATEMENTS THAT ARE FILED IN CONJUNCTION WITH FORM B REQUIREMENTS, OR OTHER STATE OR FEDERAL FILINGS THAT ARE PROVIDED TO THE DEPARTMENT ARE NOT REQUIRED TO DUPLICATE THAT INFORMATION IN THE CGAD BUT ARE REQUIRED TO CROSS-REFERENCE THE DOCUMENT IN WHICH THE INFORMATION IS INCLUDED.

20-492.02. Rules and orders

ON NOTICE AND AN OPPORTUNITY FOR ALL INTERESTED PERSONS TO BE HEARD, THE DIRECTOR MAY ADOPT RULES AND ISSUE ORDERS NECESSARY TO CARRY OUT THIS ARTICLE.

20-492.03. Contents of corporate governance annual disclosure

- A. THE INSURER OR INSURANCE GROUP HAS DISCRETION OVER THE RESPONSES TO THE CGAD INQUIRIES, IF THE CGAD CONTAINS THE MATERIAL INFORMATION NECESSARY TO ALLOW THE DIRECTOR TO GAIN AN UNDERSTANDING OF THE INSURER'S OR INSURANCE GROUP'S CORPORATE GOVERNANCE STRUCTURE, POLICIES AND PRACTICES. THE DIRECTOR MAY REQUEST ADDITIONAL INFORMATION THAT THE DIRECTOR DEEMS MATERIAL AND NECESSARY TO PROVIDE THE DIRECTOR WITH A CLEAR UNDERSTANDING OF THE CORPORATE GOVERNANCE POLICIES, THE REPORTING OR INFORMATION SYSTEM OR THE CONTROLS IMPLEMENTING THOSE POLICIES.
- B. NOTWITHSTANDING SUBSECTION A OF THIS SECTION, THE INSURER OR INSURANCE GROUP SHALL PREPARE THE CGAD CONSISTENT WITH RULES ADOPTED BY THE DEPARTMENT. DOCUMENTATION AND SUPPORTING INFORMATION SHALL BE MAINTAINED AND MADE AVAILABLE ON EXAMINATION OR ON THE REQUEST OF THE DIRECTOR.

20-492.04. Confidentiality

A. DOCUMENTS, MATERIALS OR OTHER INFORMATION, INCLUDING THE CGAD, THAT ARE IN THE POSSESSION OR CONTROL OF THE DEPARTMENT AND THAT ARE OBTAINED BY, CREATED BY OR DISCLOSED TO THE DIRECTOR OR ANY OTHER PERSON UNDER THIS ARTICLE ARE RECOGNIZED BY THIS STATE AS BEING PROPRIETARY AND CONTAINING TRADE SECRETS. ALL SUCH DOCUMENTS, MATERIALS OR OTHER INFORMATION ARE CONFIDENTIAL BY LAW AND PRIVILEGED, ARE NOT SUBJECT TO

- 2 -

TITLE 39, CHAPTER 1, ARTICLE 2, ARE NOT SUBJECT TO SUBPOENA AND ARE NOT SUBJECT TO DISCOVERY OR ADMISSIBLE IN EVIDENCE IN ANY PRIVATE CIVIL ACTION. THE DIRECTOR IS AUTHORIZED TO USE THE DOCUMENTS, MATERIALS OR OTHER INFORMATION IN THE FURTHERANCE OF ANY REGULATORY OR LEGAL ACTION BROUGHT AS A PART OF THE DIRECTOR'S OFFICIAL DUTIES. THE DIRECTOR MAY NOT OTHERWISE MAKE THE DOCUMENTS, MATERIALS OR OTHER INFORMATION PUBLIC WITHOUT THE PRIOR WRITTEN CONSENT OF THE INSURER. THIS SECTION DOES NOT REQUIRE WRITTEN CONSENT OF THE INSURER BEFORE THE DIRECTOR SHARES OR RECEIVES CONFIDENTIAL DOCUMENTS, MATERIALS OR OTHER CGAD-RELATED INFORMATION PURSUANT TO SUBSECTION C OF THIS SECTION.

- B. THE DIRECTOR OR A PERSON WHO RECEIVES DOCUMENTS, MATERIALS OR OTHER CGAD-RELATED INFORMATION, THROUGH EXAMINATION OR OTHERWISE, WHILE ACTING UNDER THE AUTHORITY OF THE DIRECTOR OR WITH WHOM THE DOCUMENTS, MATERIALS OR OTHER INFORMATION ARE SHARED PURSUANT TO THIS ARTICLE IS NOT ALLOWED OR REQUIRED TO TESTIFY IN ANY PRIVATE CIVIL ACTION CONCERNING ANY CONFIDENTIAL DOCUMENTS, MATERIALS OR INFORMATION SUBJECT TO SUBSECTION A OF THIS SECTION.
- C. IN ORDER TO ASSIST IN THE PERFORMANCE OF THE DIRECTOR'S REGULATORY DUTIES, THE DIRECTOR MAY:
- 1. ON REQUEST, SHARE DOCUMENTS, MATERIALS OR OTHER CGAD-RELATED INFORMATION, INCLUDING THE CONFIDENTIAL AND PRIVILEGED DOCUMENTS, MATERIALS OR INFORMATION SUBJECT TO SUBSECTION A OF THIS SECTION, INCLUDING PROPRIETARY AND TRADE SECRET DOCUMENTS AND MATERIALS, WITH OTHER STATE, FEDERAL AND INTERNATIONAL FINANCIAL REGULATORY AGENCIES, INCLUDING MEMBERS OF A SUPERVISORY COLLEGE AS DEFINED IN SECTION 20-481, WITH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS AND WITH THIRD-PARTY CONSULTANTS PURSUANT TO SECTION 20-492.05, IF THE RECIPIENT AGREES IN WRITING TO MAINTAIN THE CONFIDENTIALITY AND PRIVILEGED STATUS OF THE CGAD-RELATED DOCUMENTS, MATERIALS OR OTHER INFORMATION AND VERIFIES IN WRITING THE LEGAL AUTHORITY TO MAINTAIN CONFIDENTIALITY.
- 2. RECEIVE DOCUMENTS, MATERIALS OR OTHER CGAD-RELATED INFORMATION, INCLUDING OTHERWISE CONFIDENTIAL AND PRIVILEGED DOCUMENTS, MATERIALS OR INFORMATION, INCLUDING PROPRIETARY AND TRADE-SECRET INFORMATION OR DOCUMENTS, FROM REGULATORY OFFICIALS OF OTHER STATE, FEDERAL AND INTERNATIONAL FINANCIAL REGULATORY AGENCIES, INCLUDING MEMBERS OF A SUPERVISORY COLLEGE AS DEFINED IN SECTION 20-481, AND FROM THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS AND SHALL MAINTAIN AS CONFIDENTIAL OR PRIVILEGED ANY DOCUMENT, MATERIAL OR INFORMATION RECEIVED WITH NOTICE OR THE UNDERSTANDING THAT IT IS CONFIDENTIAL OR PRIVILEGED UNDER THE LAWS OF THE JURISDICTION THAT IS THE SOURCE OF THE DOCUMENT, MATERIAL OR INFORMATION.
- D. THE SHARING OF INFORMATION AND DOCUMENTS BY THE DIRECTOR PURSUANT TO THIS ARTICLE DOES NOT CONSTITUTE A DELEGATION OF REGULATORY AUTHORITY OR RULEMAKING, AND THE DIRECTOR IS SOLELY RESPONSIBLE FOR THE ADMINISTRATION, EXECUTION AND ENFORCEMENT OF THIS ARTICLE.

- 3 -

E. THE DISCLOSURE OF CGAD-RELATED INFORMATION OR DOCUMENTS TO THE DIRECTOR OR AS A RESULT OF SHARING THE INFORMATION AND DOCUMENTS AS AUTHORIZED IN THIS ARTICLE DOES NOT CONSTITUTE A WAIVER OF ANY APPLICABLE PRIVILEGE OR CLAIM OF CONFIDENTIALITY IN THE DOCUMENTS, PROPRIETARY AND TRADE-SECRET MATERIALS OR OTHER CGAD-RELATED INFORMATION.

20-492.05. Third-party consultants; confidentiality standards

- A. THE DIRECTOR MAY RETAIN, AT THE INSURER'S EXPENSE, THIRD-PARTY CONSULTANTS, INCLUDING ATTORNEYS, ACTUARIES, ACCOUNTANTS AND OTHER EXPERTS NOT OTHERWISE A PART OF THE DIRECTOR'S STAFF, AS MAY BE REASONABLY NECESSARY TO ASSIST THE DIRECTOR IN REVIEWING THE CGAD AND RELATED INFORMATION OR THE INSURER'S COMPLIANCE WITH THIS ARTICLE.
- B. PERSONS WHO ARE RETAINED UNDER SUBSECTION A OF THIS SECTION ARE UNDER THE DIRECTION AND CONTROL OF THE DIRECTOR AND SHALL ACT IN A PURELY ADVISORY CAPACITY.
- C. THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS AND THIRD-PARTY CONSULTANTS ARE SUBJECT TO THE SAME CONFIDENTIALITY STANDARDS AND REQUIREMENTS AS THE DIRECTOR.
- D. AS PART OF THE RETENTION PROCESS, A THIRD-PARTY CONSULTANT SHALL VERIFY TO THE DIRECTOR, WITH NOTICE TO THE INSURER, THAT THE THIRD-PARTY CONSULTANT DOES NOT HAVE A CONFLICT OF INTEREST AND THAT THE THIRD-PARTY CONSULTANT HAS INTERNAL PROCEDURES IN PLACE TO MONITOR COMPLIANCE WITH A CONFLICT AND TO COMPLY WITH THE CONFIDENTIALITY STANDARDS AND REQUIREMENTS OF THIS ARTICLE.
- E. A WRITTEN AGREEMENT WITH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OR A THIRD-PARTY CONSULTANT GOVERNING SHARING AND USE OF INFORMATION PROVIDED PURSUANT TO THIS ARTICLE SHALL CONTAIN ALL OF THE FOLLOWING PROVISIONS AND EXPRESSLY REQUIRE THE WRITTEN CONSENT OF THE INSURER BEFORE MAKING PUBLIC INFORMATION PROVIDED UNDER THIS ARTICLE:
- 1. SPECIFIC PROCEDURES AND PROTOCOLS FOR MAINTAINING THE CONFIDENTIALITY AND SECURITY OF CGAD-RELATED INFORMATION THAT IS SHARED WITH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OR A THIRD-PARTY CONSULTANT PURSUANT TO THIS ARTICLE.
- 2. PROCEDURES AND PROTOCOLS FOR SHARING BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS ONLY WITH OTHER STATE REGULATORS FROM STATES IN WHICH THE INSURANCE GROUP HAS DOMICILED INSURERS. THE AGREEMENT SHALL PROVIDE THAT THE RECIPIENT AGREE IN WRITING TO MAINTAIN THE CONFIDENTIALITY AND PRIVILEGED STATUS OF THE CGAD-RELATED DOCUMENTS, MATERIALS OR OTHER INFORMATION AND VERIFY IN WRITING THE LEGAL AUTHORITY TO MAINTAIN CONFIDENTIALITY.
- 3. A PROVISION THAT SPECIFIES THAT OWNERSHIP OF THE CGAD-RELATED INFORMATION THAT IS SHARED WITH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OR A THIRD-PARTY CONSULTANT REMAIN WITH THE DEPARTMENT AND THAT THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' OR THIRD-PARTY CONSULTANT'S USE OF THE INFORMATION IS SUBJECT TO THE DIRECTION OF THE DIRECTOR.

.31

- 4. A PROVISION THAT PROHIBITS THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OR A THIRD-PARTY CONSULTANT FROM STORING THE INFORMATION SHARED PURSUANT TO THIS ARTICLE IN A PERMANENT DATABASE AFTER THE UNDERLYING ANALYSIS IS COMPLETED.
- 5. A PROVISION THAT REQUIRES THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OR A THIRD-PARTY CONSULTANT TO PROVIDE PROMPT NOTICE TO THE DIRECTOR AND TO THE INSURER OR INSURANCE GROUP REGARDING A SUBPOENA, REQUEST FOR DISCLOSURE OR REQUEST FOR PRODUCTION OF THE INSURER'S CGAD-RELATED INFORMATION.
- 6. A REQUIREMENT THAT THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OR A THIRD-PARTY CONSULTANT CONSENT TO INTERVENTION BY AN INSURER IN ANY JUDICIAL OR ADMINISTRATIVE ACTION IN WHICH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OR A THIRD-PARTY CONSULTANT MAY BE REQUIRED TO DISCLOSE CONFIDENTIAL INFORMATION ABOUT THE INSURER SHARED WITH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS OR A THIRD-PARTY CONSULTANT PURSUANT TO THIS ARTICLE.

20-492.06. <u>Civil penalties</u>

IF AN INSURER FAILS WITHOUT JUST CAUSE TO TIMELY FILE THE CGAD AS REQUIRED IN THIS ARTICLE, AFTER NOTICE AND A HEARING, THE DIRECTOR MAY IMPOSE A CIVIL PENALTY OF \$20 FOR EACH DAY'S DELAY NOT TO EXCEED \$2,500. THE DIRECTOR SHALL COLLECT THE CIVIL PENALTY AND DEPOSIT THE MONIES IN THE STATE GENERAL FUND. THE DIRECTOR MAY REDUCE THE PENALTY IF THE INSURER DEMONSTRATES TO THE DIRECTOR THAT THE IMPOSITION OF THE PENALTY WOULD CONSTITUTE A FINANCIAL HARDSHIP TO THE INSURER.

Sec. 2. Exemption from rulemaking requirements

For the purposes of this act, the department of insurance is exempt from the rulemaking requirements of title 41, chapter 6, Arizona Revised Statutes, for one year after the effective date of this act.

Sec. 3. <u>Nonseverability</u>

If section 20-492.04, Arizona Revised Statutes, as added by this act, is finally adjudicated as invalid, the entire act is void.

APPROVED BY THE GOVERNOR MAY 7, 2019.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MAY 7, 2019.

- 5 -

Passed the House	Passed the Senate 5-eluy 4, 20 19
by the following vote: Ayes,	by the following vote: Ayes,
Nays,Not Voting	Nays,Not Voting
Speaker of the House The Tempore Chief Clerk of the House	President of the Senate Australia Overses Secretary of the Senate
OFFICE OF This Bill was received	
at	EXECUTIVE DEPARTMENT OF ARIZONA OFFICE OF SECRETARY OF STATE
S.B. 1007	This Bill was received by the Secretary of State this

Secretary of State